

## Message Text

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ACTION MMO-04

INFO OCT-02 EUR-12 EA-12 ISO-00 AID-05 CIAE-00 COME-00  
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04  
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-06 CEA-01 L-03 H-02 PA-02 PRS-01 AGRE-00  
/118 W

-----000150 251212Z /20

P R 250906Z JAN 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 4641  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A  
TAGS: EFIN, JA  
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JAN 19-25

REF: A) TOKYO (1977) 19655; B) TOKYO 1035; C) TOKYO 1128

1. SUMMARY: SEVEN PERCENT REAL GROWTH FORECAST OFFICIALLY  
APPROVED AND SUBMITTED TO DIET ALONG WITH FY 1978 BUDGET.  
PRIMIN REJECTS OPPOSITION CALLS FOR INCOME TAX CUT.  
UNIFIED GOJ VIEW ON NATURE OF 7 PERCENT GROWTH TARGET PUB-  
LISHED. MITI PUSHES FOR FURTHER STEP-UP IN POWER PLANT  
INVESTMENT. INDICATORS OF CONSUMER SPENDING DROOP IN DEC.  
UNIT LABOR COST FELL IN NOV. DEC CURRENT ACCOUNT SURPLUS  
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\$1 BIL. EXPORT AND IMPORT PRICES IN YEN CONTINUE TO DROP  
IN DEC. INDUSTRIAL BOND YIELDS TO BE REDUCED IN FEB.  
MINOR REVISIONS REPORTED IN NOV PRODUCTION INDICES.  
END SUMMARY.

2. IN HIS REPLIES TO DIET QUESTIONS ON JUNE 24, PRIMIN  
FUKUDA REJECTED CALLS BY OPPOSITION PARTIES FOR FY 1978 INCOME

TAX CUTS. FUKUDA SAID, IN JAPAN, PUBLIC WORKS SPENDING  
WOULD BE MORE EFFECTIVE IN COUNTERING RECESSION THAN INCOME  
TAX CUTS.

3. ON TUES, JAN 24, THE CABINET OFFICIALLY APPROVED  
THE JFY 1978 ECONOMIC FORECAST. PUBLISHED VERSION OF  
THE OFFICIALLY APPROVED 7 PERCENT GROWTH FORECAST NOW  
INCLUDES ESTIMATES FOR THE PUBLIC SECTOR ACCOUNTS AND  
EMPLOYMENT. ALL OTHER COMPONENTS OF THE FORECAST ARE  
UNCHANGED FROM THE VERSION REPORTED IN TOKYO 19655. ON  
THE SAME DAY THE GOVT'S FY 1978 BUDGET WAS PRESENTED TO  
THE DIET. THE PREVIOUSLY SUBMITTED SUPPLEMENTARY FY 1977  
BUDGET IS NOW EXPECTED TO BE PASSED IN LATE JAN.

OFFICIAL GOJ ECONOMIC FORECAST FOR JFY 1978

	PERCENT CHANGE			
	IN BIL YEN		FROM PRIOR YEAR	
	JFY 77	JFY 78	JFY 77	JFY 78
GNP	188,000	210,600	11.1	12.0
(IN REAL TERMS)	N/A	N/A	5.3	7.0
PVT CONSUMPTION	107,150	119,850	11.4	11.9
PVT HOUSING INV.	13,200	15,000	7.5	13.6
PVT PLANT AND				
EQUIP INVEST	23,350	25,650	3.0	9.9
INCREASE IN PVT				
INVENTORY	3,050	3,800	3.0	24.6
GOVT PURCHASE OF				
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GOODS & SERVICES	38,550	44,650	14.6	15.8
CURRENT PURCHASE	20,550	22,900	11.6	11.4
CAPITAL FORMATION	18,000	21,750	18.2	20.8
EXPORTS, ETC.	24,800	25,100	0.9	1.2
(LESS) IMPORTS, ETC.	22,100	23,450	-4.4	6.1
MINING AND MANU-				
FACTURING INDUS.				
PROD. INDEX				
(1970 EQUALS 100)	130.6	139.5	2.6	6.8
WPI (1975 EQUALS 100)				

BZ

IIIVQQUI	109.7	0.6	2.7
CPI (1975 EQUALS			
100)	120.3	128.5	7.6 6.8
LABOR FORCE (MIL			
PERSONS)	54.7	55.2	
EMPLOYED	53.5	54.1	
UNEMPLOYMENT RATE			
(PERCENT)(EMBASSY			
ESTIMATE)	2.1	2.0	

NOTE: GNP AND OTHER NATIONAL ACCOUNT FIGURES ALL IN NOMINAL

TERMS UNLESS OTHERWISE INDICATED.

GOJ BALANCE OF PAYMENTS PROJECTION

PERCENT CHANGE

IN \$ BIL FROM PRIOR YEAR

JFY 77 JFY 78 JFY 77 JFY 78

CURRENT ACCOUNT

BALANCE 10.0 6.0

TRADE BALANCE 16.5 13.5

(EXPORTS) 79.5 85.0 15 7

(IMPORTS) - 63.0 - 71.5 8 13

SERVICE AND TRANSFER

BALANCE - 6.5 - 7.5

LONG-TERM CAPITAL

BALANCE - 5.0 - 7.0

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BASIC BALANCE 5.0 - 1.0

(CUSTOMS BASIS TRADE DATA)

EXPORTS, F.O.B. 81.0 86.5 15 7

IMPORTS, C.I.F. - 72.0 - 81.0 7 13

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INFO OCT-01 EUR-12 EA-12 ISO-00 SP-02 USIA-15 AID-05

EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PRS-01 PA-02 AGRE-00

( ISO ) W

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P R 250906Z JAN 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 4642

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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4. FOLLOWING UP ON THE CONTROVERSY LAST WEEK OVER WHETHER THE 7 PERCENT GROWTH OBJECTIVE WAS A DOMESTIC TARGET OR AN INTERNATIONAL PROMISE (REPORTED TOKYO 1035), GOJ FORMULATED A UNIFIED VIEW ON THE SUBJECT. ACCORDING TO NIHON KEIZAI JAN 20 "THE CONTENTS OF THE UNIFIED VIEW ARE: (1) IN ORDER TO ENDEAVOR FOR THE STABILIZATION OF EMPLOYMENT AND FOR THE PROTECTION OF THE FOUNDATION OF THE PEOPLE'S LIVELIHOOD, THE GOVT HAS DECIDED ON THE TARGET RATE OF ABOUT 7 PERCENT FOR ECONOMIC GROWTH IN FISCAL 1978; (2) THE ATTAINMENT OF THIS TARGET IS EXPECTED, AT THE SAME TIME, TO BE OF HELP IN PROMOTING EXTERNAL COORDINATION; AND (3) THE ABOVE POINTS WERE ALSO EXPRESSED BY OUR SIDE AT THE ECONOMIC CONSULTATIONS HELD THE OTHER DAY BETWEEN JAPAN AND THE U.S. AND THE GOVT INTENDS TO MAKE UTMOST EFFORTS FOR THE REALIZATION OF THIS TARGET." (EMBASSY TRANSLATION). AS REPORTED REFTEL, CABINET SECRETARY ABE, IN RELEASING THIS UNIFIED VIEW, ADDED HIS INTERPRETATION THAT IT MEANT THE 7 PERCENT FIGURE WAS A UNCLASSIFIED

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DOMESTIC TARGET.

5. ACCORDING TO PRESS ACCOUNTS MITI PLANS TO TAKE STEPS TO SPEED UP CONSTRUCTION OF ELECTRIC POWER PLANTS. MITI'S TARGET IS TO RAISE FY 1978 EXPEDITURES TO YEN 5 TRILLION FROM THE YEN 3.1 TRILLION NOW PLANNED BY THE POWER COMPANIES FOR FY 1978. EVEN THE YEN 3.1 TRILLION FIGURE REPRESENTS A GAIN OF 30 PERCENT OVER FY 1977 SPENDING. TO ACHIEVE ITS AMBITIOUS TARGET, MITI WILL TRY TO SPEED UP SETTLEMENT OF PLANT LOCATION PROBLEMS THAT HAVE BEDEVILED ITS RECENT EFFORTS IN THIS AREA. SUBSIDIES TO LOCAL GOVERNMENTS TO PROMOTE POWER PLANT CONSTRUCTION WILL BE DOUBLED (YEN AMOUNT UNSPECIFIED) IF CONSTRUCTION IS STARTED IN 1978 OR 1979. ALSO THE NUMBER OF SITES DESIGNATED AS "IMPORTANT POWER DEVELOPMENT SITES" WILL BE INCREASED FROM PRESENT 15 TO 25. ALTHOUGH THE FIGURES QUOTED ABOVE ARE NOT IDENTICAL TO NATIONAL INCOME ACCOUNTS MEASURES OF INVESTMENT EXPENDITURES, THEY GIVE A ROUGH ORDER OF MAGNITUDE OF THE MINIMUM LIKELY INCREASE IN THIS IMPORTANT COMPONENT OF PRIVATE INVESTMENT AND AN INDICATION OF THE SCOPE FOR EXPANDING OUTLAYS IN FY 1978. OFFICIAL FORECASTS HAVE PLACED A HEAVY EMPHASIS ON POWER PLANT CONSTRUCTION AS A MAJOR CONTRIBUTOR TO TOTAL PRIVATE INVESTMENT IN FY 1978.

6. DEPARTMENT STORE SALES, S.A., REBOUNDED IN DEC, UP 2.4 PERCENT OVER THE PRIOR MONTH' LEVEL, BUT FOR OCT-DEC QUARTER AS A WHOLE RECORDED SMALL (0.1 PERCENT) DECLINE FROM THE THIRD QUARTER. SALES OF LARGE-SCALE SELF-SERVICE TYPE RETAIL

STORES ALSO INDICATE SLUGGISH CONSUMER SPENDING DURING FOURTH  
 QUARTER OF LAST YEAR. ON YEAR-OVER-YEAR COMPARISON (S.A.  
 DATA NOT AVAILABLE), GROWTH IN SALES OF SELF-SERVICE RETAIL  
 STORES SLOWED IN THE OCT-DEC QUARTER TO 18 PERCENT FROM THE  
 23 PERCENT YEAR-OVER-YEAR INCREASE IN THE JUL-SEP  
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QUARTER. FOR FULL YEAR 1977 GROWTH IN DEPARTMENT STORE SALES  
 SLOWED TO 6.2 PERCENT FROM NEARLY 9 PERCENT INCREASE IN 1976  
 WHILE SALES OF SELF-SERVICE TYPE RETAIL STORES PICKED UP  
 SOMEWHAT, RISING BY NEARLY 19 PERCENT COMPARED WITH 15  
 PERCENT INCREASE IN 1976.

TABLE 1: DEPARTMENT STORE SALES, S.A.  
 (1970 EQUALS 100; PERCENT CHANGE FROM PRIOR PERIOD IN PAREN)

RECENT MONTHS:

OCT	267.2 (1.5)
NOV	257.6 (MIN 3.6)
DEC	263.7 (2.4)

RECENT QUARTERS (MONTHLY AVERAGE):

1977' JAN-MAR	256.7 (2.6)
APR-JUNE	257.3 (0.2)
JUL-SEP	263.2 (2.3)
OCT-DEC	262.8 (MIN 0.1)

RECENT YEARS (MONTHLY AVERAGE):

1975	225.9 (10.6)
1976	245.3 (8.6)
1977	260.5 (6.2)

TABLE 2: SALES OF DEPARTMENT STORES AND LARGE-SCALE SELF-  
 SERVICE STORES, N.S.A. (IN BIL YEN; PERCENT CHANGE FROM  
 YEAR AGO IN PAREN)

RECENT MONTHS: DEPARTMENT STORES SELF-SERVICE STORES

OCT	432.2 (5.4)	356.3 (17.7)
NOV	423.6 (3.0)	358.1 (17.1)
DEC	815.5 (6.0)	550.3 (18.5)

RECENT QUARTERS (MONTHLY AVERAGE):

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INFO OCT-02 EUR-12 EA-12 ISO-00 SP-02 USIA-15 AID-05  
 EB-08 NSC-05 SS-15 STR-06 OMB-01 CEA-01 CIAE-00  
 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AGRE-00  
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P R 250906Z JAN 78  
 FM AMEMBASSY TOKYO  
 TO SECSTATE WASHDC PRIORITY 4643  
 TREASURY DEPT WASHDC  
 INFO AMEMBASSY BONN  
 AMEMBASSY BRUSSELS  
 AMEMBASSY LONDON  
 AMEMBASSY PARIS  
 AMEMBASSY ROME

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1977: JAN-MAR	368.3 (7.1)	300.1 (16.2)
APR-JUNE	383.4 (6.3)	330.4 (17.8)
JUL-SEP	416.1 (6.9)	354.4 (23.4)
OCT-DEC	557.1 (5.1)	421.6 (17.9)

RECENT YEARS (MONTHLY AVERAGE):

1975	374.0 (10.6)	256.8 (18.8)
1976	406.1 (8.6)	295.9 (15.2)
1977	431.2 (6.2)	351.6 (18.8)

7. UNIT LABOR COST, S.A., DECLINED 2.0 PERCENT IN NOV AFTER INCREASES IN PRECEDING TWOMONTHS. LABOR PRODUCTIVITY IN MACHINERY INDUSTRY DETERIORATED IN SEP, THE LATEST MONTH FOR WHICH DATA AVAILABLE, BUT FOR JUL-SEP QUARTER AS A WHOLE RECORDED SMALL 0.2 PERCENT IMPROVEMENT. THIS INDEX HAS BEEN VIRTUALLY UNCHANGED THROUGHOUT 1977.

LABOR CONDITIONS  
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JEI NO.	SERIES (UNIT)	SEP	OCT	NOV
421	UNIT LABOR COST (1970 EQUALS 100)	192.9	194.9(R)	191.0
	JUL AUG SEP			
N/A	LABOR PRODUCTIVITY, MACHINERY	173.0	177.7	174.7
	(1970 EQUALS 100)			
	JAN-MAR APR-JUNE JUL-SEP			
		174.9	174.7	175.1

(NOTE: ALL SERIES ARE SEASONALLY ADJUSTED BY ECONOMIC PLANNING AGENCY.)

8. DEC BALANCE OF PAYMENTS DATA (TOKYO 1128) SHOW A SMALL DECLINE IN THE S.A. MONTHLY CURRENT ACCOUNT SURPLUS TO \$1.0 BIL FROM \$1.2 BIL IN NOV. FOR FULL CY 1977 THE

CURRENT ACCOUNT SURPLUS TOTALED \$11.1 BIL.

9. EXPORT AND IMPORT CONTRACT PRICE INDICES, N.S.A., BOTH DECLINED IN DEC FOR THIRD STRAIGHT MONTH. IMPORT PRICES DECLINED MORE THAN EXPORT PRICES. IN 1977 EXPORT PRICE INDEX AVERAGED 93.5, DOWN 5.0 PERCENT FROM PRIOR YEAR, WHILE IMPORT PRICE INDEX DROPPED 4.2 PERCENT, TO 101.5. TOWARD YEAR-END DECLINES IN EXPORT AND IMPORT PRICES HAVE ACCELERATED REFLECTING ACCELERATED YEN APPRECIATION SINCE MID-YEAR. YEAR-OVER-YEAR DECLINES IN EXPORT AND IMPORT PRICES WERE 8.4 PERCENT AND 13 PERCENT, RESPECTIVELY, IN DEC.

EXPORT AND IMPORT CONTRACT PRICE INDICES, N.S.A.

(1975 EQUALS 100; PERCENT CHANGE FROM PRIOR PERIOD IN PAREN)

	EXPORTS (JEI 80)	IMPORTS (JEI 88)
RECENT MONTHS:		
OCT	92.1 (MIN 1.8)	97.3 (MIN 2.8)
NOV	90.4 (MIN 1.8)	94.1 (MIN 3.3)
DEC	89.7 (MIN 0.8)	92.1 (MIN 2.1)

RECENT YEARS (MONTHLY AVERAGEL:

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1976	98.4 (MIN 1.6)	106.0 (6.0)
1977	93.5 (MIN 5.0)	101.5 (MIN 4.2)

10. SECURITIES FIRMS INTEND TO LOWER INDUSTRIAL BOND YIELDS TO SUBSCRIBERS BY 0.2 PERCENTAGE POINTS, EFFECTIVE WITH FEBRUARY ISSUES. AS A RESULT, YIELDS TO SUBSCRIBERS OF INDUSTRIAL BONDS RATED AT AA WILL BE LOWERED TO 6.683 PERCENT PER ANNUM, SAME AS OF THE TEN-YEAR INTEREST-BEARING GOVT BONDS. MINISTRY OF FINANCE, THOUGH UNHAPPY WITH THIS SITUATION, REPORTEDLY INTENDS TO ALLOW SECURITIES FIRMS TO LOWER INDUSTRIAL BOND YIELD, BUT HAS NO INTENTION OF LOWERING GOVT BOND YIELDS TO SUBSCRIBERS.

11. REVISED PRODUCTION INDEX FOR NOV SHOWS ONLY MINOR REVISION FROM PRELIMINARY ESTIMATE REPORTED REFTEL (TOKYO 19809), MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY ANNOUNCED JAN 25. MINING AND MANUFACTURING PRODUCTION INDEX, S.A., REVISED SLIGHTLY UPWARD TO SHOW 2.9 PERCENT INCREASE FROM PRIOR MONTH INSTEAD OF PRELIMINARY ESTIMATE OF 2.8 PERCENT INCREASE. REVISED PRODUCERS' SHIPMENTS OF FINISHED GOODS REMAINED UNCHANGED FROM PRELIMINARY ESTIMATE, UP 4.0 PERCENT FROM OCT. INDEX OF PRODUCERS' INVENTORIES OF FINISHED GOODS REVISED UPWARD, AND NOW SHOWS AN INCREASE OF 0.2 PERCENT IN CONTRAST TO PRELIMINARY ESTIMATE OF 0.1 PERCENT DECLINE.

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## Message Attributes

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**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
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**Review Transfer Date:**  
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**Secure:** OPEN  
**Status:** NATIVE  
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**TAGS:** EFIN, JA  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/014e09e0-c288-dd11-92da-001cc4696bcc  
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